

# Minutes

## Seattle City Employees' Retirement System Regular Board Meeting

Wednesday, September 7, 2011 – 9:00 a.m.  
Pacific Building, 9<sup>th</sup> Floor

**Present:**        ☒ Jean Godden ☒ Glen M. Lee ☒ Rod Rich ☒ Robert Harvey, Jr. ☒ David Stewart  
                 ☒ Lou Walter    ☒ Jean Becker

**Others Present:** Carlton Seu, Esq., CAO; Mike Monaco, Esq., Song Mondress; Cecelia M. Carter, SCERS; Anthony Smith, SCERS; Beverly Yapp, SCERS; Steve Neubauer, SCERS; Lindsay Reid, SCERS; Lisa Carns, SCERS; Steve Kovac, SCL; Steve Viney, retiree; Karen Young, City Employee; Jim Taylor, ARSCE; Kory Hoggan; Lenee Jones; Tom Kirn; Patti Kieval, Local 17.

Councilmember Godden, Chair - called the meeting to order at 9:00am

### Public Comment:

*there being none*

### Minutes:

**Information:**    Provided in the Retirement Board packet are the minutes from the August 3, 2011 Retirement Board Regular Meeting.

**Motion:**        Upon motion by Lou Walter, seconded by Bob Harvey, the Retirement Board approved the minutes from the August 3, 2011 Retirement Board Regular Meeting.

Glen Lee arrived at 9:02am and left room immediately after arriving.

### Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals:

**Information:** The following items represent normal expenses and nothing extraordinary.

Service	\$9,388,356.22
Beneficiary	\$920,037.68
Disability	\$75,697.36
Pension Payroll – PPE August 31, 2011	
	<b>\$10,384,091.26</b>

Office Payroll – PPE July 5 & 19, 2011	<b>\$ 71,383.04</b>
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Vouchers Processed – July 31, 2011	<b>\$550,832.81</b>
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- \*Expert and Consultant Services – \$26,479.09
- \*Investment Management Fees – \$435,226.30
- \*Interdepartmental Charges - \$71,852.10
- \*Miscellaneous - \$17,275.32

## Immediate Withdrawals of Contributions for the month of August 2011:

Member	Department Name	Position
Gonzales, Raquel M	Personnel	Mgmt Service Dr
Drago, Kyle S	Parks	Maint Laborer
Harrison, Kenneth E	SCL	Meter Reader
Lowe, Andrea B	Personnel	Emplyment Spec
Baker, Andrew R	DOIT	IT Sys Anlyst
Britsch, Jeffrey C	SDOT	Comm Vehicle Enforce
Dixon, Sigrid Ebron	Sea Ctr	Water Pipe Worker
Dhlamini, Duduzile Thembisile	SPU	Strat Advisor
Elward, Sara E	SPL	Director of Planned Giving
Turlington, Gidgette Renne	Parks	Cashier
Wright, Andrew L	Sea Ctr	Contractor
Chinn, Nicole R	Parks	Lifeguard
Regis, Randolph P	FAS	Janitor
Bingham, Patricia	DON	Spec 1
Carter, Vanessa E	Parks	Rec Attendant
Sterling, Nola M	SPL	Librarian

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

**16 Withdrawals for a total of: \$347,397.41**

**Motion:** Upon motion by Rod Rich, seconded by Lou Walter, the Board ratified the Retiree Payroll, Office Payroll, other Payments and Withdrawals.

## Ratification of Service Retirements:

Glen Lee returned to the meeting at 9:08am.

**Information:** The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Years	Days	DeptName	Position	Age
Possenti, Rosalie M	7/20/2011	26	3	Police	Personnel Spec Asst	58
Piering, M Pamela	7/22/2011	27	60	Human Services	Executive 2	62
Sherwin, William A	8/3/2011	30	336	SPU	Drainage & Waste Coll CC	56
Butterworth, Gerald	7/9/2011	29	288	SPU	Carpenter Sr/	60
Widhalm, Carol D	8/3/2011	29	6	SPU	Util Svc Rep	61
Thompson, John R	7/23/2011	10	192	Vested	Vested	64
Skeers, Bonnie J	7/9/2011	21	162	Library	Shelving Ops	57
Lee, Alvin B	8/3/2011	23	296	City Light	Jrnywrk in Chg	60
Tong, Diana	8/3/2011	24	146	City Light	Elecl Engr Spec, Asst III	64

Retiree	RetireDt	Years	Days	DeptName	Position	Age
Conover,James R	8/3/2011	19	242	Parks	Painter	66
Wells,Beatrice D	7/30/2011	5	364	Vested	Vested	65
Freeman,Barbara	8/3/2011	13	11	SPU	Info Tech Prof C-BU	59
Empenger,Daniel H	7/8/2011	3	61	Vested	Portability	58
Carr,Richard D	8/3/2011	10	72	Police	Equip & Fac Coord	69
Gibson,Gary R	8/2/2011	9	2	DoIT	Executive 2	68

For the month of August: 37 new active Members entered the System, 35 terminations, 15 Members retired in the System, 28 members removed (\$38,078.80), 1 Option D/E continuations, 1 option F reductions.

**Motion:** Upon motion by David Stewart, seconded by Rod Rich, the Retirement Board approved the service retirements listed above, pending final review.

### **Ratification of Investment Transactions and Statement of Securities and Cash:**

**Information:** Provided in the Retirement Board packet is the Investment Summary report that represents the transaction summary and the market value of the investments as of July 31, 2011.

Ms. Carter reported for the month of July the portfolio was down 81 basis points, year to date change in plan value 2.57%, funding ratio at 66.56%.

**Motion:** Upon motion by Rod Rich, seconded by Bob Harvey, the Retirement Board accepted the Investment Summary report.

### **Investment Committee Report:**

**Information:** The Investment Committee is scheduled to meet at noon on Thursday, September 29, 2011 in the Retirement Office.

Investment Committee met on August 25, 2011. Neil Rue, Pension Consulting Alliance provided an overview of the Portfolio Performance Report for 2<sup>nd</sup> Quarter 2011.

### **Investment Activity Requiring Board Ratification and/or Recognition**

#### **Real Estate Investment Guidelines**

Ms. Carter reported that Christy Fields with Pension Consulting Alliance reviewed the redline guidelines for Real Estate Investment. There was dialogue concerning the private real estate vs. publicly-traded REITs. The Investment Committee requested that PCA provide an analysis of real estate return correlations at the September Board meeting. The Investment Committee recommends the Board adopt the Real Estate guidelines that includes the revision to expand the investment vehicle ranges to 0%– 100% for both public and private.

**Motion:** Upon motion by Lou Walter, seconded by Bob Harvey, the Retirement Board adopted the Real Estate Investment Guidelines presented by PCA at the August 25, 2011 Investment Committee meeting to be incorporated into the current SCERS Investment Policy.

### **Private Equity Investment Guidelines**

Ms. Carter further reported that Mike Moy with Pension Consulting Alliance reviewed Private Equity Guidelines. The Investment Committee requested more defined outline listing the steps relating to the incorporation of Private Equity in the SCERS portfolio.

The Private Equity Investment Guidelines was tabled by the Board due to additional questions. The Private Equity Investment guidelines will be discussed at the September 29, 2011 Investment Committee meeting.

### **Placement Agent Policy**

Ms. Carter provided an outline of PCA's proposal that SCERS change the definition of "Placement Agent" to model the sentiment enacted in California Assembly Bill 1743. The definition captures not only external entities who serve as placement agents, but also those internal employees of an investment firm that might require identification and disclosure as a placement agent under the policy.

**Motion:** Upon motion of Lou Walter seconded by Glen Lee, the Retirement Board adopted the Placement Agent policy presented by PCA at the August 25, 2011 Investment Committee meeting to be incorporated into the current SCERS Investment policy.

### **GoldenTree – conflicting claims**

Ms. Carter reported that SCERS received two formal claims; each claimant seeks approximately \$80,000 in interest payments. Since reporting to the Investment Committee on August 25, 2011 one claimant rescinded their claim. The Investment Committee recommended to the board the City Attorney's office initiate legal actions if necessary.

**Motion:** Upon motion by Lou Walter, seconded by David Stewart, the Retirement Board approved that the City Attorney's office initiate legal actions as necessary to protect the interest of SCERS in the matter of GoldenTree Asset Management.

### **Rhumblin – change of ownership**

Ms. Carter announced that Rhumblin's CEO is retiring and turning over 52% of his ownership to 8 in-house employees effective September 30, 2011.

**Motion:** Upon motion by Lou Walter, seconded by Rod Rich, the Retirement Board acknowledges the change of ownership.

Councilmember Godden Chair introduced Jean Becker as a new Board member and also acknowledged Lou Walter's editorial writing for ARSCE newsletter.

### **Executive Director Report:**

#### **(1) Monthly Payroll Statistics**

Deferred to October 5, 2011 Board meeting.

#### **(2) 2010 SCERS Annual Report**

The 2010 Annual Reports were provided for Board and posted on SCERS' website.

## Old Business:

### Status of Benefit Enhancements

**Information:** The estimated current funding level of the Retirement Fund is 66.56% as of June 30, 2011 on a marked to market basis.

The above amount is an estimate calculated each month by the Retirement Office staff. As provided by Ordinance 120685, changes to the Floor COLA will occur once the funding level has reached at least 100% and has been confirmed by the Board after commissioning an actuarial valuation.

#### (1) Items to Discuss

- Investment Policy Guidelines
  - Hedge Funds – on hold

#### (2) Interdepartmental Team (IDT) Retirement Study (due to City Council Mid-2012 Budget)

No presentation

#### (3) Pension Account – Credited Interest

Councilmember Godden Chair announced that Board members received numerous emails regarding credit interest and acknowledged people's concern and takes all seriously.

Ms. Carter gave an overview of credited interest as outlined below.

#### SCERS Responsibility – Why Review Credit Interest

The Board's responsibility is to strive for a healthy and sustainable defined benefit plan, to ensure the stability of a lifetime benefit to the members. The cost to the retirement plan for maintaining a 5.75% credit to employee contributions regardless of actual performance impacts the plan's funding ratio; impacts the plans unfunded liability; impacts the plan's future liabilities. As member contributions continue to increase, the impact from the credit interest will continue to increase the plan's future liabilities.

#### Definition

Credit interest is the dollar amount credited to the employee members' contributions into the Seattle City Employees' Retirement Plan (SCERS or "the Plan"). Credit interest is payable regardless of investment returns experienced by the Plan. When combined with the employee contributions, members see the effect of credit interest in what is referred to as ACWI (*accumulated contributions with interest*). This appears on the members' annual statement of contributions. The current rate of interest is 5.75% and is compounded. This has been the rate of interest since the 1970's.

#### Financial Effect of Credit Interest

Following are different scenarios on how credit interest affects the plan.

- Effect on employee contributions when the member separates from service and elects to take a lump sum refund (cash or rollover) of his/her employee contributions plus interest
- Effect on employee contributions when a member retires from service and elects a "G" option as part of his/her monthly retirement – the employee contributions plus interest are paid out to the employee -- still permitting the employee to receive a reduced monthly retirement
- Effect on member retirement when the member selects the "A" or "B" option as part of his/her monthly retirement – residual employee contributions plus interest remaining at the time of death of the retired member are paid to the retired member's beneficiary(ies)

- Effect on member retirement calculation when what is commonly referred to as: 2 times match becomes more increasingly prevalent as a result of the increase in the employee contribution rate.
- What is 2 times match?
  - SMC 4.36.200, 4.36.210 and 4.36.260 provides a retirement equal to the better of the purchase of an annuity or the service retirement formula
    - Service retirement formula = age x yrs of service x 2% x final average salary (up to 60% of FAS)
    - 2 times match = the employee contribution plus the employer contribution used to purchase a lifetime annuity
- Examples of 2 times match
  - Deferred retirements – contributions continued to compound interest after the employee left city service while awaiting to attain age 57 (the first point of eligibility for this member)
    - 57 yrs of age; 14 yrs & 209 days of service
    - Service formula retirement = \$897 (22% of final average salary)
    - 2 times match retirement = \$1,301 (32% of final average salary)
      - *Note: both calculations are still below 60% of final average salary*
  - Older retirees – retirement above expected normal retirement age
    - 81 yrs of age; 8 yrs & 22 days of service
    - Service formula retirement = \$374 (16% of final average salary)
    - 2 times match retirement = \$623 (27% of final average salary)
      - *Note: both calculations are still below 60% of final average salary*
  - Retirees with many years of service who hit the 30-year maximum based on the regular service formula – the additional 13+ years of service (above the 30 year cap) included additional employee contributions and compounding interest
    - 71 yrs of age; 43 yrs & 120 days of service
    - Service formula retirement = \$4,080 (60% of final average salary)
    - 2 times match retirement = \$6,958 (102% of final average salary)

#### **Recommendations on alternatives to the stagnate credit interest rate**

- Develop a policy that requires the Board of Administration to review the credit interest and make recommendations for the succeeding year
- Develop a policy to address credit interest on non-vested members who have not established dual membership with a retirement system where portability is permitted.

#### **New Business:**

##### **(1) Real Estate Return Correlations**

Christy Fields, with Pension Consulting Alliance joined the meeting via telephone at 9:55am to provide an overview of SCERS' returns for time period 3/31/2001-12/31/2010. Over a 10 year period NAREIT returns had a significantly higher correlation than ODCE returns to SCERS' portfolio, the NAREIT US returns were greater than ODCE and SCERS' real estate returns but with increased volatility, the real estate accounted for an average of 9.9% of SCERS' total net asset value. There was discussion regarding presentation.

**The Board reserves the right to enter into executive session if necessary**

**Executive Session:**

- The Board entered executive session at 10:15am for 15 minutes to discuss a personnel matter.
- Ms. Carter announced a 10 minute extension at 10:30am.
- Executive session ended at 10:36am.

**\*\*\* There were no actions taken \*\*\***

**Adjournment:**

**Motion:** Upon motion by Rod Rich, seconded by Lou Walter, the Retirement Board voted to adjourn the meeting at 10:37am.

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David Stewart, Secretary